ALLTEL Corporate Services, Inc.
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ALLTEL

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Office of the Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, DC 20554

Re: CC Docket 96-262
Access Charge Reform

Dear Mr. Caton:

Enclosed for filing please find an original and twelve copies of the Reply Comments of ALLTEL Telephone Services Corporation ("ALLTEL"), in the referenced rulemaking proceeding.

In response to the Commission's Notice of Proposed Rulemaking, I have also enclosed a copy of the reply comments, on a 3.5 inch diskette formatted in a DOS PC compatible form, saved in to WordPerfect 5.1 for Windows format, in "read only" mode.

Please address any questions respecting this matter to the undersigned counsel.

Very truly yours,

Carolyn Hill

Carolyn C. Hill

CCH/ss

Enclosures

cc: (w/2 copies of Pleading)
Competitive Pricing Division
Common Carrier Bureau
1919 M Street, N.W., Room 518
Washington, D.C. 20554

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FEDERAL ...ICATIONS COMMISSION
OFFICE OF SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review for Local Exchange Carriers	))	CC Docket No. 94-1
	)	
Transport Rate Structure and Pricing	))	CC Docket No. 91-213
	)	
Usage of the Public Switched Network by Information Service and Internet Access Providers	)))	CC Docket No. 96-263

REPLY COMMENTS

ALLTEL Telephone Services Corporation

Carolyn C. Hill
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(202) 783-3970

Its Attorney

ALLTEL Telephone Services
February 14, 1997

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	)	
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	)	
Usage of the Public Switched Network by Information Service and Internet Access Providers	)	CC Docket No. 96-263

REPLY COMMENTS OF
ALLTEL TELEPHONE SERVICES CORPORATION

ALLTEL Telephone Services Corporation, on behalf of its local telephone exchange carrier affiliates (hereinafter "ALLTEL" or the "ALLTEL Companies"), respectfully submits its reply to the comments filed January 29, 1997, in the above-captioned matter.

I. ACCESS REFORM SHOULD NOT BE DELAYED FOR RATE OF RETURN LECS

Comments filed by a myriad of interests, including incumbent LECs, IXCs, regulators, and new competitive entrants reflected a consensus that the current access charge regime requires modification because of the inherent economic inefficiencies. These inefficiencies affect all LECs, including the rate of return LECs. Many rate of return parties echoed ALLTEL's view that there are compelling reasons for the Commission to address and implement access reform now for rate of return LECs rather than to defer it until after access reform determinations are made for price cap LECs. (TDS pgs. 7-9, GVNW pg. 4, Roseville pgs. 2, 5-6, RTC pg. 2, and Cincinnati Bell, pg. 3) To delay access reform for rate of return LECs can, as pointed out by TDS, lead to the prejudgment of issues of importance to rate of return LECs. (TDS pg. 7) In a similar vein, as noted by several other parties, historically there has been a "shadow effect" of regulatory decision - making whereby, by default or as an after-thought, rules designed for larger LECs are extended to small and mid-sized LECs. (TDS pgs. 2, 7, RTC pg. 15, and ITC pg. 1) However, ALLTEL submits that rate of return LECS have too much at risk for access reform policy to be effectuated on a default basis. For this reason, the ground rules of access reform for rate of return LECs should be adopted now.

II. COMPETITION DOES NOT STOP AT THE BORDERS OF RATE OF RETURN LECS

In the NPRM the Commission said that price cap incumbent LECs have the most immediate need for access reform based on their susceptibility to competition through the availability of unbundled network elements. (NPRM par. 52) While ALLTEL recognizes that many price cap LECs already face substantial competition, ALLTEL maintains that the reason for this competition is a function of service territory location in or around larger metropolitan areas. It is not a function of the mode of regulation. ALLTEL and other non-price cap LECs serve areas that are contiguous to these urban areas and take little comfort in the Commission's rationale that "many, if not all, non-price cap incumbent LECs may be exempt from, or eligible for a modification or suspension of, the interconnection and unbundling requirements of the 1996 Act." (Id.) At the same time, the Commission has taken the position in its Local Competition Order that exemption and modification of these requirements should be the exception, not the rule. As the Rural Telephone Coalition stated in its comments, "The Commission cannot logically argue both that the exemption should only rarely be continued and that access reform is not now needed by rural telephone companies because they will be exempt." (RTC pg. 3)

Many rate of return LECs face immediate market pressures due to the effects of competition within and adjacent to their operating territories. Appendix A vividly demonstrates that nearly fifty-one percent (51%) of the ALLTEL Companies' access lines are located within MSA boundaries. However, ALLTEL does not enjoy the benefits of being the largest provider in any of those market areas, is still subject to the effects of competition, and continues to be regulated as a dominant carrier. ALLTEL fully expects to face competitor and customer demands to mirror the prices and structure that may be obtained from neighboring price cap LECs. Consequently, ALLTEL needs the flexibility to respond to these competitive pressures before it is subject to the resultant "cherry picking". In short, being forced to forego access reform and pricing flexibility afforded to neighboring price cap LECs until a later date places ALLTEL and other non-price cap LECs at a severe and totally unwarranted competitive disadvantage.

The Commission, as well as the 96 Act, has imposed numerous pro-competition requirements on incumbent LECs without regard to regulatory construct. These include the requirements of Section 251(b) as they relate to number portability, dialing parity, and access to rights of way. Number portability implementation illustrates the potential impact of the Commission's new "pro-competition" mandates. As shown in Appendix A, approximately forty-one percent (41%) of ALLTEL access lines fall within the boundaries of the one-hundred (100) largest MSAs. As a result of the Commission's prescribed local number portability deployment schedule, ALLTEL will be required to upgrade software to provide the functionality necessary for porting numbers in these areas first. The implementation of these capabilities is not without cost and is particularly burdensome for small and rural LECs. ALLTEL finds the Commission's imposition of these requirements disturbing given the proposed delay of access reform and pricing flexibility for rate of return LECs. On the one hand, the Commission has directed all companies to provide for an advanced, "competitor friendly" network, while on the other hand, it has limited the ability of rate of return LECs, for the foreseeable future, to respond to the effects of competition.

Approximately fifty percent (50%) of ALLTEL's regulated telephone operating revenues are derived from access charges. Other parties indicate similar relationships. The TDS LECs, for example, receive an average of fifty-five percent (55%) of their total revenues from access charges, with individual TDS properties having access revenue percentages that range up to ninety-three percent (93%) of total revenues. With so much at stake for small and rural LECs, ALLTEL's dismay at the prospect of doing business without the benefit of the access charge flexibility which may be afforded to nearby large companies should come as no surprise to the Commission.

ALLTEL recognizes the difficulty the Commission faces in crafting an access charge system that is economically efficient while balancing the goals of universal service and inspiring the onset of immediate competition in the local exchange market;

however, the Commission should not overlook the right solution in an effort to obtain a quick solution.

III. RATE STRUCTURE MODIFICATIONS ARE NEEDED

The proposed modifications to the current access charge structure will also have a significant impact on rate of return LECs. The relationship of access charge revenues to total revenues accentuates the additional business risks faced by small LECS, and it underscores the need for the Commission's considered evaluation of any rate structure modifications adopted for rate of return LECs.

The Commission has proposed a number of reforms to the current Part 69 access rate structure that are intended to set rates that are congruent with the way in which the LECs incur costs for providing access services. (NPRM pg. 55) Industry participants echoed support for access charge modifications that will more accurately reflect "cost-causative" recovery and which send appropriate pricing signals to both consumers and competitors. Further, there was a consensus in the comments that the appropriate means by which to achieve market-driven, competitive rates and charges is to recover NTS costs on a flat-rate basis, rather than on a minute-of-use basis. ALLTEL believes that not only is this recovery method appropriate, but it is the only method which is fair to all participants in the evolving competitive marketplace.

A. Carrier Common Line/Subscriber Line Charges

In its comments, Frontier Corporation asked the Commission to eliminate the Carrier Common Line ("CCL") charge, which it called an "anachronistic cost misallocation." (Frontier pg. iii) ALLTEL disagrees. We concur with the comments of TDS and believe that the Commission should continue to require the IXCs to pay for a portion of the ubiquitous distribution network. The carte blanche elimination of the CCL charge will create a scenario in which end users inappropriately bear the full burden of recovery through what amounts to an effective increase in their subscriber line charge or their local rates. Such a proposal would have a particularly deleterious impact on the subscribers of rural and small LECs.

Many parties advocate assessing the CCL charge based on presubscribed lines or on the customer's PIC. (e.g., LCI pgs. 20-24, MCI, pgs. 76-78, and NARUC pgs. 12-14) ALLTEL believes that this method is improper due to the use of dial around numbers (10XXX). If the assessment is based on presubscribed lines, we believe that IXCs will be in the position to avoid paying the CCL charge, which is not the intent of the Commission. We reaffirm our position relative to assessing CCL charges based on the Commission's "bulk billing" option. This mechanism will ensure that all IXCs deriving a benefit from the local loop contribute a proportionate share to the recovery of these costs.

B. Local Switching Charges

The recovery of the non-traffic sensitive ("NTS") portion of local switching costs caused little contention among the parties. As the Commission found in its Order on Reconsideration in CC Docket No. 96-98, released September 27, 1996, regarding proxies for the unbundled local switching element, the recovery of NTS costs of dedicated line ports/cards is best accomplished via flat-rate charges. The extension of this cost recovery philosophy to the local switching rate element is logical. This view was echoed by the Rural Telephone Coalition ("RTC" pgs. 9-10) and is one shared by ALLTEL. ALLTEL believes that it is reasonable and economically efficient to recover dedicated line card costs through flat charges, provided that the actual costs are properly identified.

C. Tandem Switched Transport Charges

The Comments of NECA and the Rural Telephone Coalition ("RTC") mirror the views of ALLTEL with respect to the deficiencies in the methodology used to calculate tandem-switched transport rates. As noted in those comments, tandem switched transport rates are based upon an arbitrarily high assumption about the minutes of use which traverse tandem circuits. (RTC pg. 11, NECA, pg. 8) Pursuant to Section 69.111(c) of the Commission's Rules, the figure currently used in the rate development process is 9,000 minutes of use. However, as the RTC points out, transmission minutes are substantially lower in rural areas. (RTC pg. 11) ALLTEL's own data indicated that a figure of four thousand (4,000) minutes of use, per month, was appropriate. The current cost recovery method for tandem switched transport should be revised to reflect a lower, realistic level of usage; otherwise, the costs to be recovered via the TIC are artificially inflated.

D. Tandem Interconnection Charges

In their comments, AT&T and LCI both argue for the elimination of the TIC. (AT&T, pg. 58 and LCI pg. 27) ALLTEL and a number of other parties disagree and believe that the elimination of the TIC via a flash-cut or a through a transition plan is not justified at this time. (Cincinnati Bell pgs. 10-12, TDS pgs. 22-24, RTC pgs. 11-

12, Roseville Telephone pg. 10, and ALLTEL pg. 12) While a significant portion of the TIC costs are undoubtedly due to jurisdictional misallocations, these cost are nonetheless real. The costs currently recovered through the TIC are the result of the LECs' applying the Part 36 and Part 69 rules as directed by the Commission. Because the costs currently recovered through the TIC are legitimate costs which the LECs must be permitted to recover, there can be no phase out of the TIC without concurrent separations reform or an alternative mechanism which allows for the continued explicit recovery of the fully embedded transport costs. We concur with the views of TDS, NECA and Cincinnati Bell that the readily identifiable TIC costs should be reassigned on a cost-causative basis.

IV. PRICING FLEXIBILITY AND REGULATORY RELIEF ARE NEEDED NOW BY RATE OF RETURN LECS

The ALLTEL Companies are faced with an uncomfortable middle ground. They are too small relative to the national (and international) communications giants, yet they are too large to automatically receive some of the existing regulatory protections provided to hundreds of small LECs (e.g., Section 61.39 regulation) The Commission must recognize this imbalance as it establishes "triggers" to be used in granting pricing flexibility and lifting regulatory burdens.

Predictably, access customers, such as AT&T and MCI favor a rigid prescriptive approach to access reform while the larger LECs favor a "hands-off" market approach. While ALLTEL supports a market approach, the "triggers" need to match the areas and markets served by the ALLTEL Companies. The end state of access reform should be a healthy competitive environment with all competitors enjoying an equivalent level of deregulation. The continued imposition of asymmetrical regulatory requirements on the incumbent LECs works against this objective. To address this, the Commission should begin by immediately providing access pricing flexibility to the rate of return LECs. The most basic form of pricing flexibility that can be granted is the freedom to develop access rates on a geographically deaveraged basis. This will allow access rates to be aligned with the actual cost of providing access service. By this alignment, the proper signals are sent to potential competitors and inefficient market entry is prevented.

Furthermore, the alignment of deaveraged unbundled network elements with deaveraged access rates will not artificially incent new entrants to purchase unbundled elements thereby allowing them to undercut averaged access rates. Without deaveraged pricing flexibility, rate of return LECS will be unable to respond to this arbitrage. Significantly, Sprint has endorsed geographic deaveraging in its comments stating, "Sprint wholeheartedly supports geographic deaveraging of all access elements... so that prices can reflect the economics that the ILEC actually faces...." (Sprint pgs. 41-42).

Beyond pricing flexibility, there is a need for additional regulatory relief for rate of return LECs. The Competition Policy Institute ("CPI"), in its comments, laid out a set of criteria for pricing flexibility and deregulation that seems targeted to the larger ILECS, particularly the BOCs. What is of note, however, is that CPI indicates that the Commission should deregulate interstate access services only upon finding that the ILEC does not possess the market power to raise price and restrict output. (CPI pgs. 28-30) ALLTEL has no such ability. ALLTEL has consistently reduced interstate access prices and has no reason to restrict output since there is not a complimentary service to be leveraged. A market power test would allow ALLTEL immediately to begin offering access on the same basis as competitive entrants. Compliance with Section 251(b) of the Telecom Act of 1996 would be an appropriate "trigger" for an independent LEC, such as ALLTEL, to be treated as a non-dominant carrier. The complaint process, coupled with the competitive resources of telecommunications giants, such as AT&T, MCI, and the RBOCs, will ensure that any "bottleneck" control is eliminated.

In an era of national and global telecommunications competitors, ALLTEL should be categorized as a non-dominant carrier. Its market power is already small and continues to diminish as the telecommunications market grows in volume and in the number of available services. Without the freedom to respond on an equal footing, small LECs are unfairly handicapped. This handicapping has negative implications on a universal basis for healthy telecommunication competition.

Respectfully submitted,
ALLTEL Telephone Services Corporation

By: Carolyn C. Hill
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Its Attorney

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February 14, 1997

APPENDIX A

To assess the impact of the introduction of competition to the local market, ALLTEL conducted a study to find the percentage of ALLTEL access lines that are located in areas currently experiencing or likely to experience competition. Due to their proximity to metropolitan areas and in keeping with the FCC's own Local Number Portability approach, MSAs were chosen to represent geographic areas that are likely to experience competition. The first chart lists each MSA in which ALLTEL has access lines. ALLTEL typically makes up less than five percent of the households in these MSAs. Therefore, while ALLTEL does not have the benefit of dominating any MSA, our presence in these areas signals a vulnerability to competition. Entrants providing service in these MSAs will have negligible barriers to also entering ALLTEL serving areas.

As the chart indicates, nearly fifty-one percent of ALLTEL access lines are located in a MSA. Furthermore, nearly forty-one percent of ALLTEL access lines are located in the top one hundred MSAs as listed in the Local Number Portability proceeding. The picture is even worse in many states like Ohio, New York, and Kentucky where up to one hundred percent of ALLTEL's access lines are in these contested areas.

Following the chart are maps (originals in color) depicting the ALLTEL presence in several MSAs. The maps show both the MSA boundaries and the ALLTEL service area boundaries, and highlight the ALLTEL areas that are in the MSA. These maps visibly demonstrate how little of the market ALLTEL holds in each MSA. The maps also highlight an additional factor. Not only are nearly 51% of

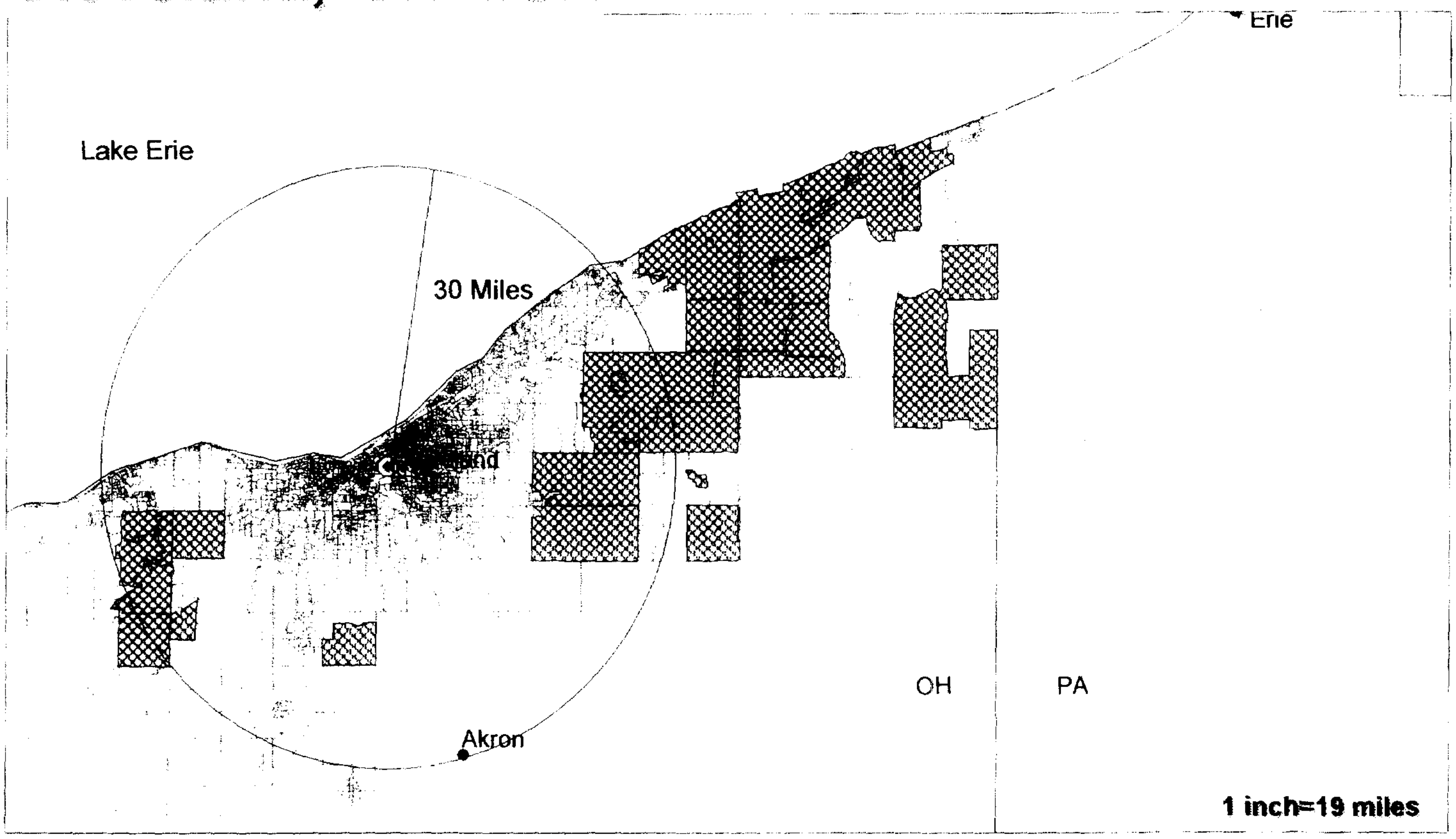
ALLTEL's access lines in MSAs, but large numbers of additional access lines are adjacent to, but not in the MSA boundary. Needless to say, competitors will not arbitrarily decide to stop their advance at the MSA boundary if they already have facilities in place.

ALLTEL Access Lines Located in MSAs

State	MSA		Number of ALLTEL lines in MSA	Number of ALLTEL lines in state	Percent of ALLTEL lines in MSA	Percent of ALLTEL lines in all MSAs
Ohio	Cleveland		137,107	305,027	44.95%	
	Akron		72,038	305,027	23.62%	
	Columbus		52,312	305,027	17.15%	
	Toledo		4,926	305,027	1.61%	
	Dayton		3,509	305,027	1.15%	
	Wheeling	**	2,708	305,027	0.89%	
	Parkersburg	**	1,368	305,027	0.45%	
	Steubenville	**	731	305,027	0.24%	89.82%
North Carolina	Charlotte		64,941	182,509	35.58%	
	Greeensboro		34,219	182,509	18.75%	54.33%
Texas	Houston		57,945	86,081	67.31%	
	Fort Worth		9,023	86,081	10.48%	
	Dallas		1,129	86,081	1.31%	
	Beaumont	**	3,740	86,081	4.34%	
	Brazoria	**	3,030	86,081	3.52%	86.97%
Pennsylvania	Pittsburgh		47,775	226,098	21.13%	
	Allentown		5,868	226,098	2.60%	
	Williamsport	**	12,172	226,098	5.38%	
	Sharon	**	11,123	226,098	4.92%	
	Eerie	**	4,181	226,098	1.85%	
	Johnstown	**	1,803	226,098	0.80%	35.58%
New York	Syracuse		44,788	97,757	45.82%	
	Rochester		2,697	97,757	2.76%	
	Jamestown	**	41,160	97,757	42.10%	
	Utica	**	2,091	97,757	2.14%	92.82%
Georgia	Atlanta		48,455	415,678	11.66%	
	Macon	**	30,809	415,678	7.41%	
	Chattanooga	**	10,626	415,678	2.56%	
	Savannah	**	8,000	415,678	1.92%	
	Columbus	**	3,599	415,678	0.87%	24.42%
South Carolina	Columbia		29,579	49,164	60.16%	
	Greenville		10,922	49,164	22.22%	82.38%
Alabama	Birmingham		14,117	24,176	58.39%	
	Montgomery	**	3,977	24,176	16.45%	74.84%
Arkansas	Little Rock		9,050	98,205	9.22%	
	Fayettville	**	3,720	98,205	3.79%	
	Ft. Smith	**	2,088	98,205	2.13%	15.13%
Florida	Jasksonville		10,230	76,612	13.35%	
	Gainesville	**	13,392	76,612	17.48%	
	Ocala	**	7,595	76,612	9.91%	40.75%
Kentucky	Louisville		22,283	22,283	100.00%	100.00%
Missouri	St. Louis		1,586	54,877	2.89%	
	Joplin	**	725	54,877	1.32%	4.21%
Oklahoma	Fort Smith	**	1,775	32,237	5.51%	
	Lawton	**	632	32,237	1.96%	1.96%
ALLTEL Telephone Totals:			**855,544**	**1,681,395**	**50.88%**	
ALLTEL lines affected by LNP requirements:			684,499	1,681,395	40.71%	

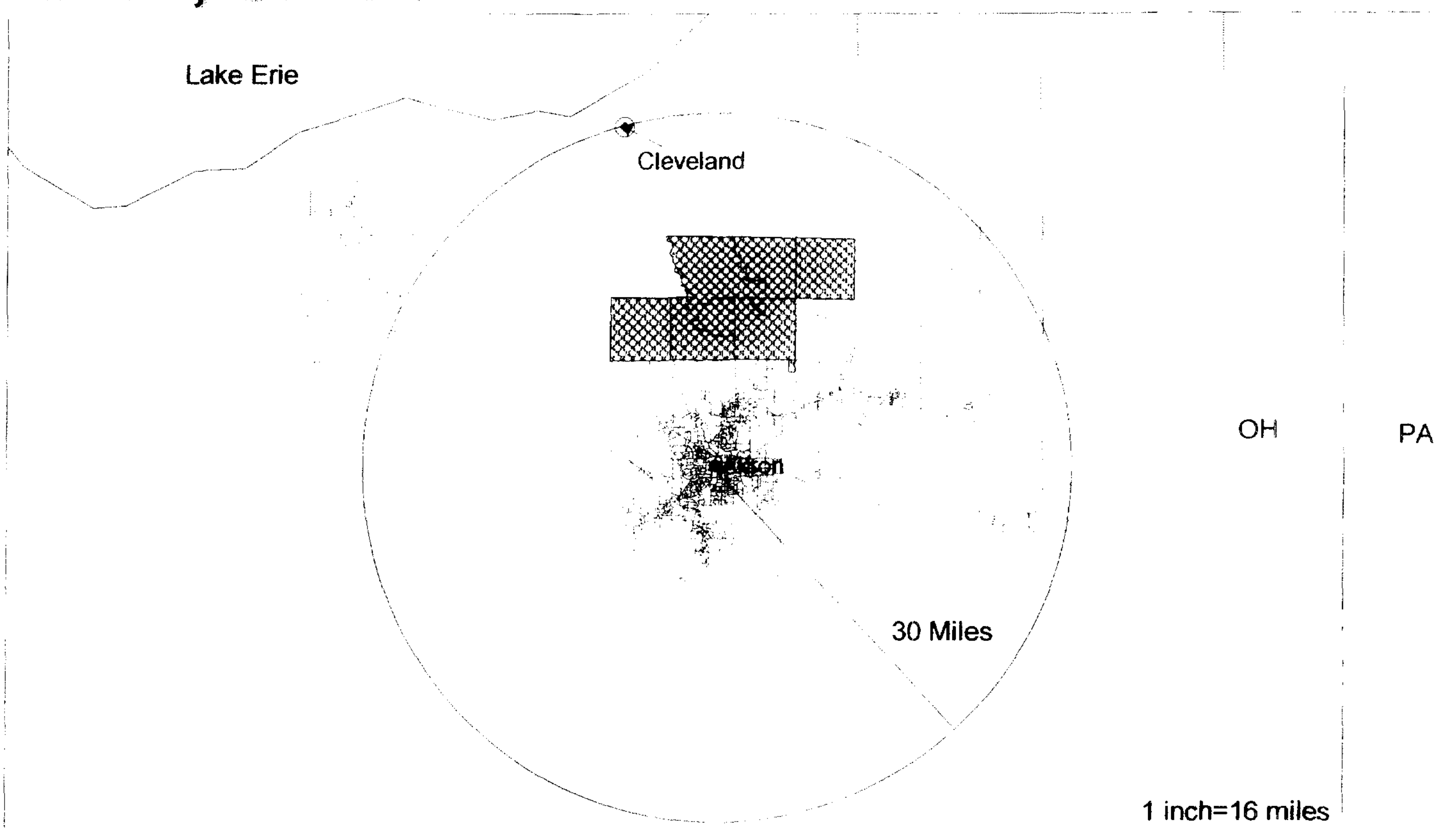
**MSA not included in Local Number Portability requirements

Cleveland, OH MSA



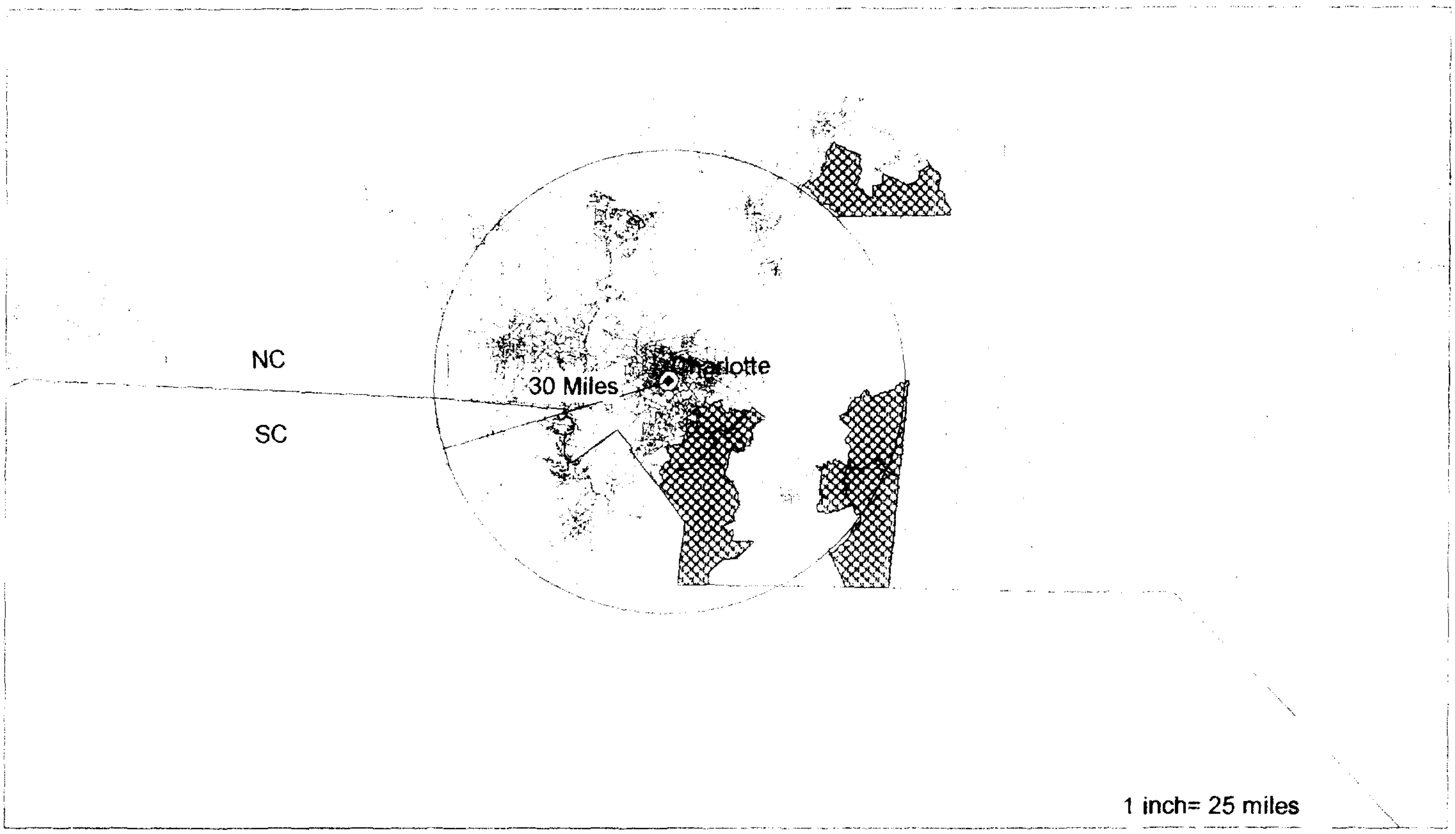
Purple: Cleveland, OH MSA
Green: ALLTEL Service Areas (OH)
Green Shaded: ALLTEL Service Areas in MSA
Blue: ALLTEL Pennsylvania
Black: State Border

Akron, OH MSA



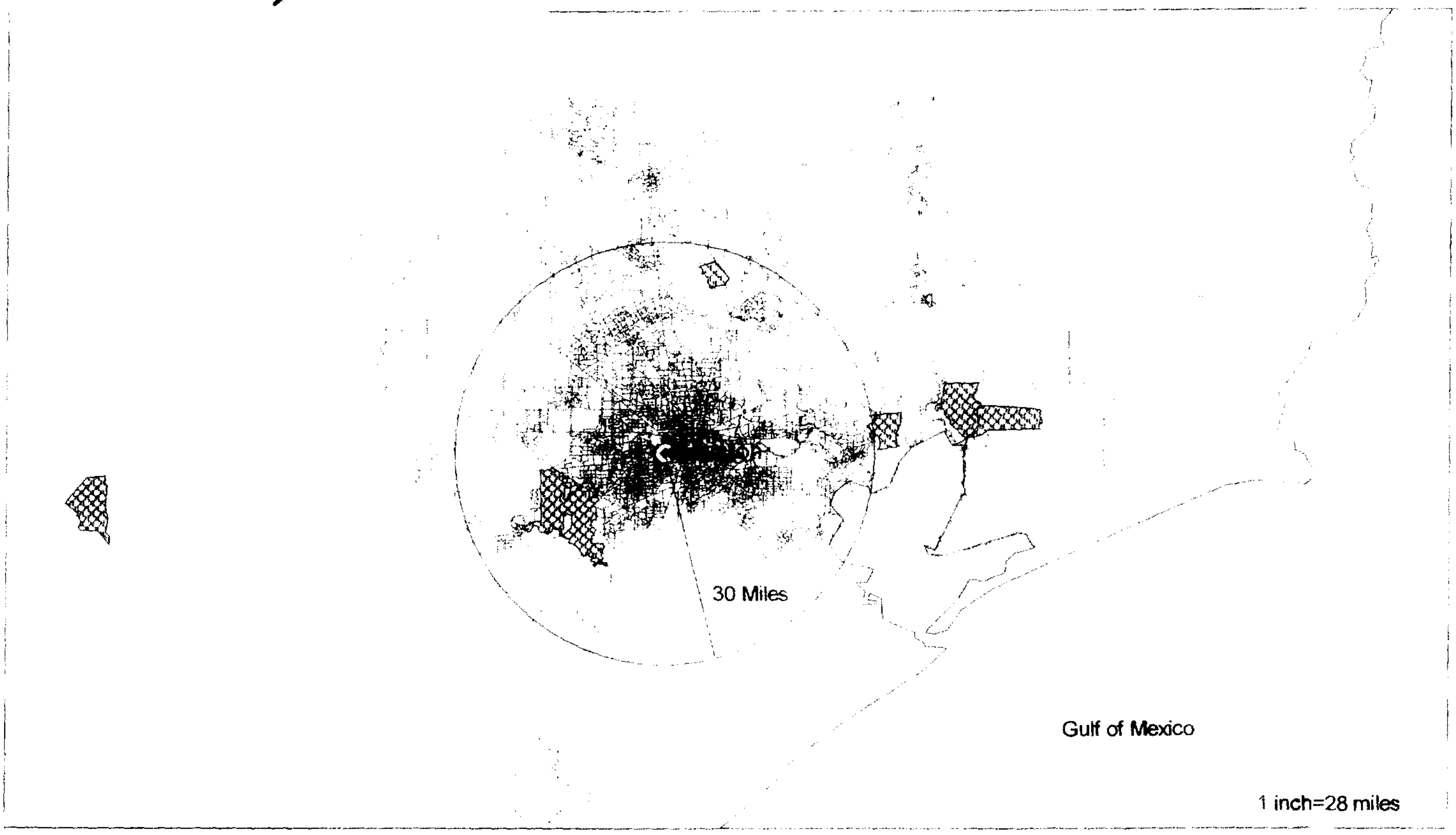
Purple: Akron, OH MSA
Green: ALLTELService Areas (OH)
Green Shaded: ALLTEL Service Areas in MSA
Blue: ALLTEL Pennsylvania
Black: State Border

Charlotte, NC-SC MSA



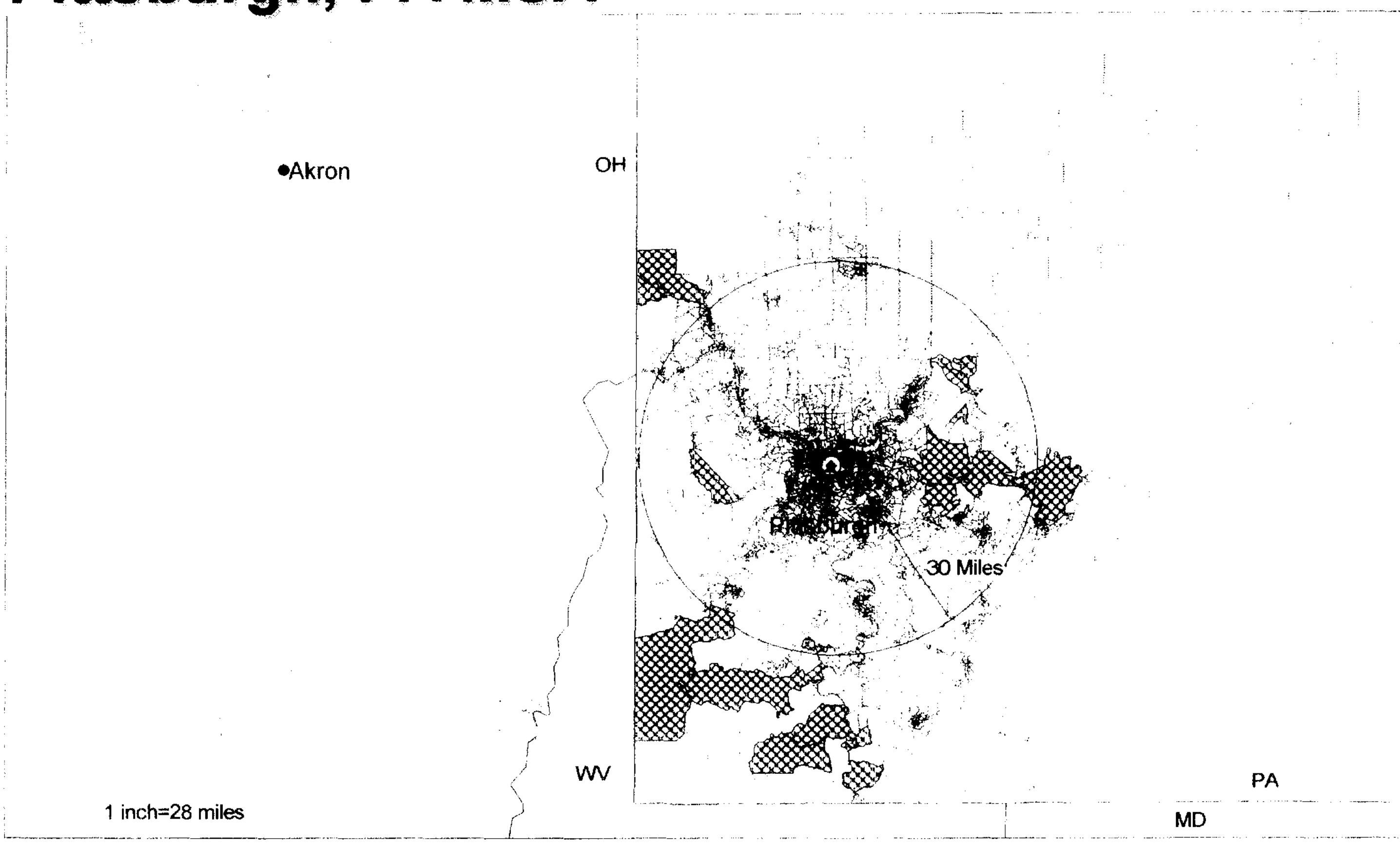
Purple: Charlotte, NC-SC MSA
Green: ALLTEL North Carolina Service Areas
Green Shaded: ALLTEL Service Areas in MSA
Blue: ALLTEL South Carolina
Black: State Border

Houston, TX MSA



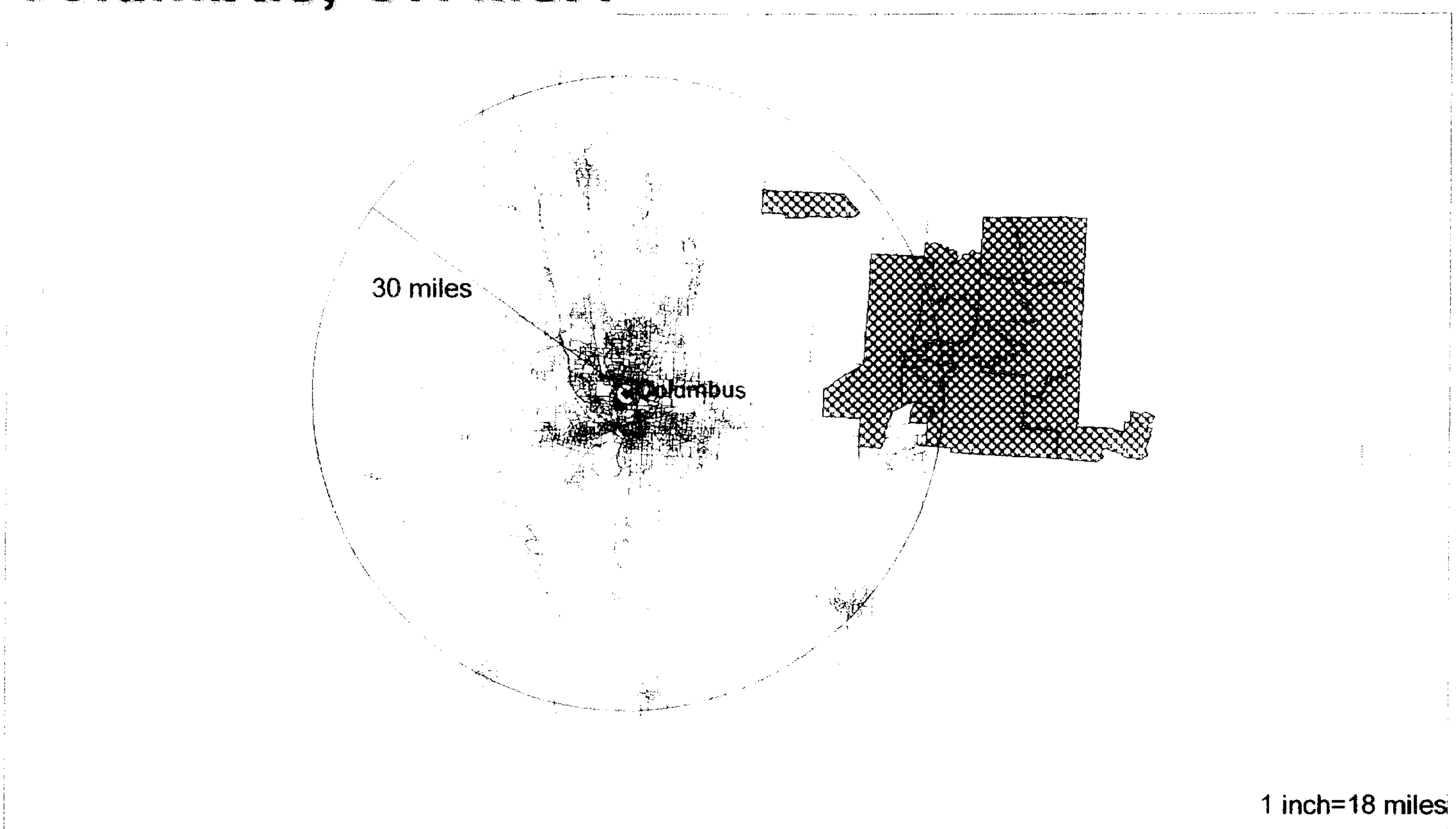
Purple: Houston, TX MSA
Green: ALLTEL Service Areas (ALLTEL Texas and Sugar Land Telephone)
Green Shaded: ALLTEL Service Areas in MSA
Black: Texas Border

Pittsburgh, PA MSA



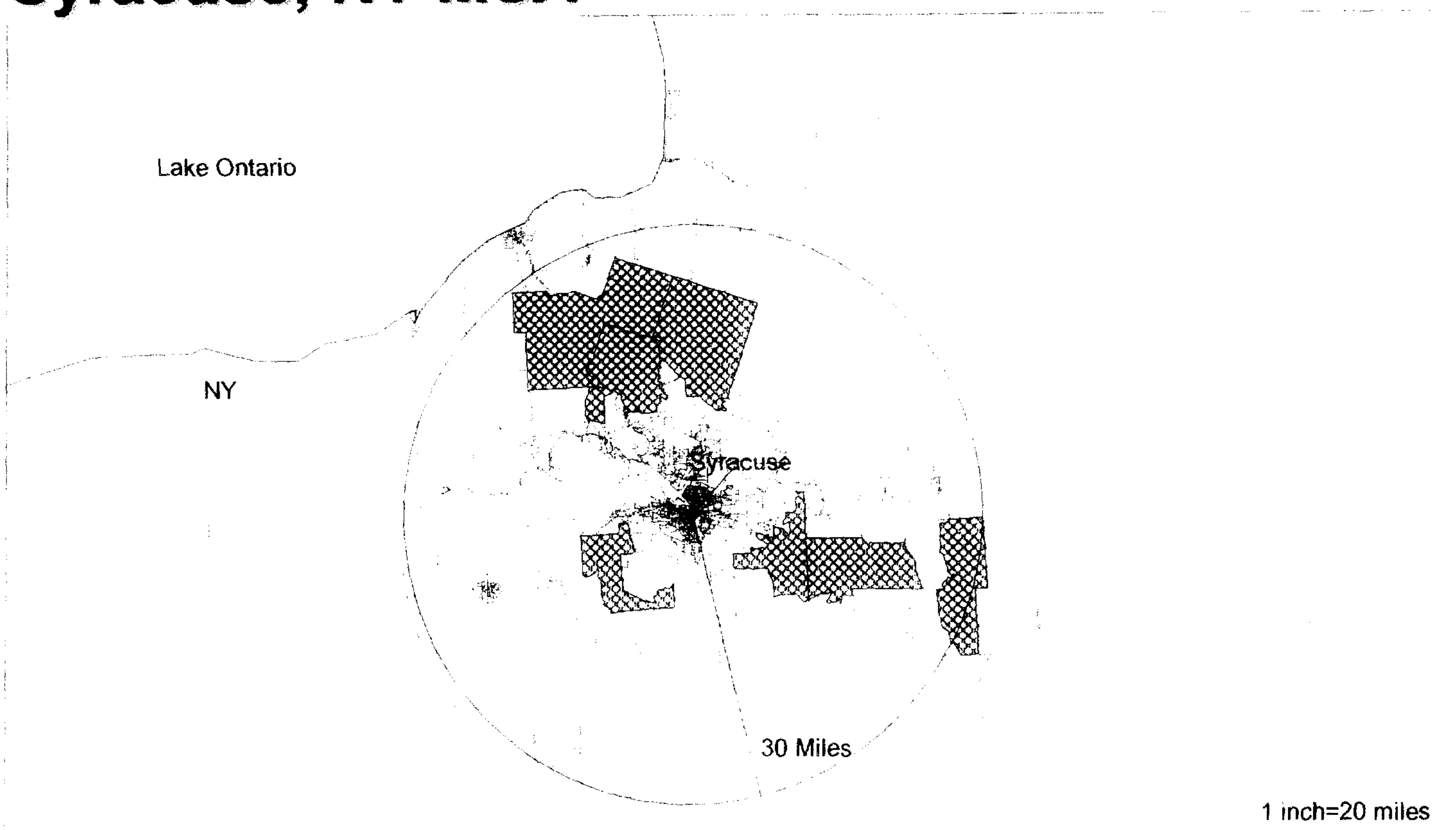
Purple: Pittsburgh, PA MSA
Green: ALLTEL Pennsylvania Service Areas
Green Shaded: ALLTEL Pennsylvania Service Areas in MSA
Blue: ALLTEL Service Areas in Ohio
Black: State Borders

Columbus, OH MSA



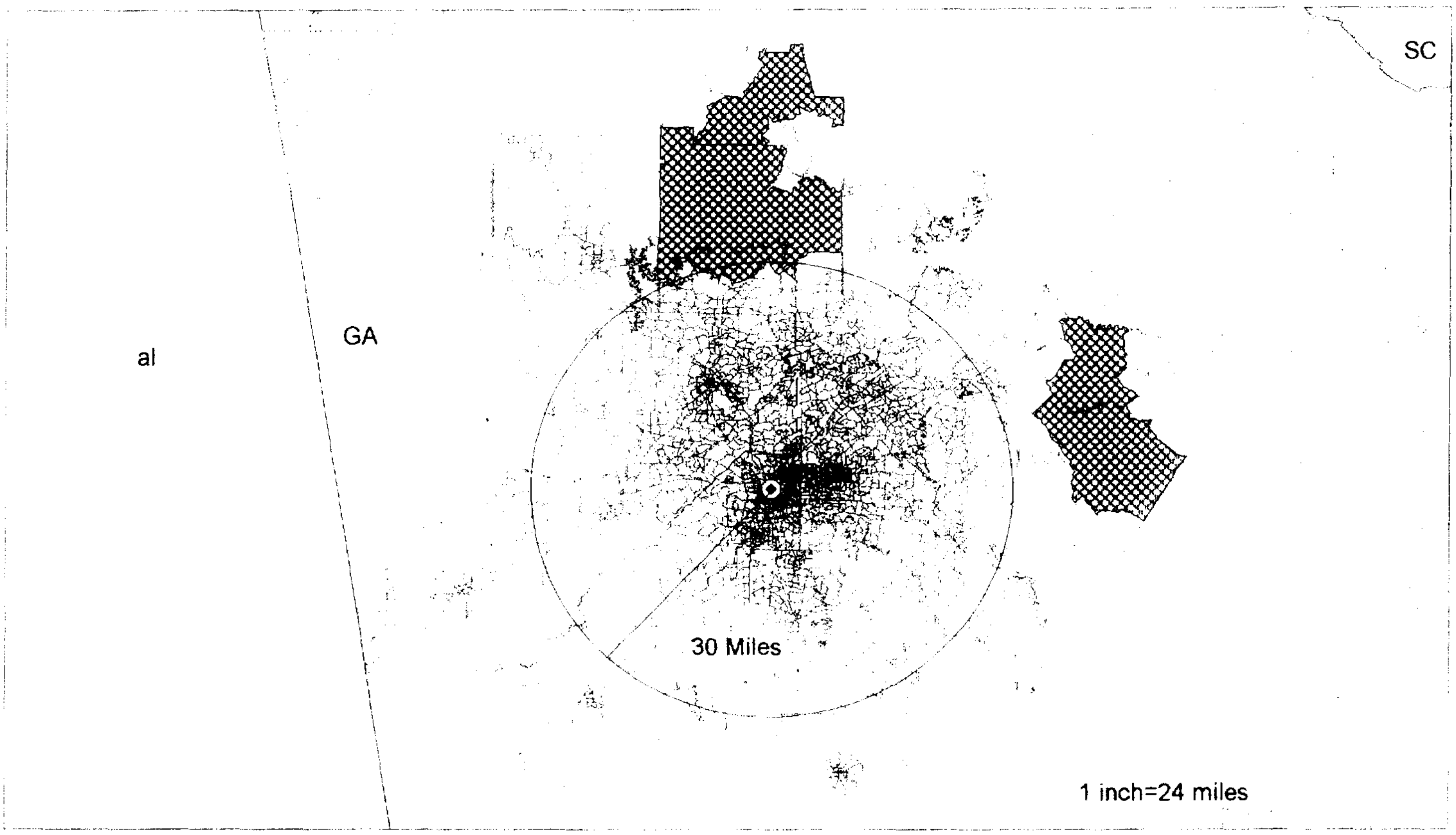
Purple: Columbus, OH MSA
Green: ALLTEL Ohio Service Areas
Green Shaded: ALLTEL Ohio Service Areas in MSA

Syracuse, NY MSA



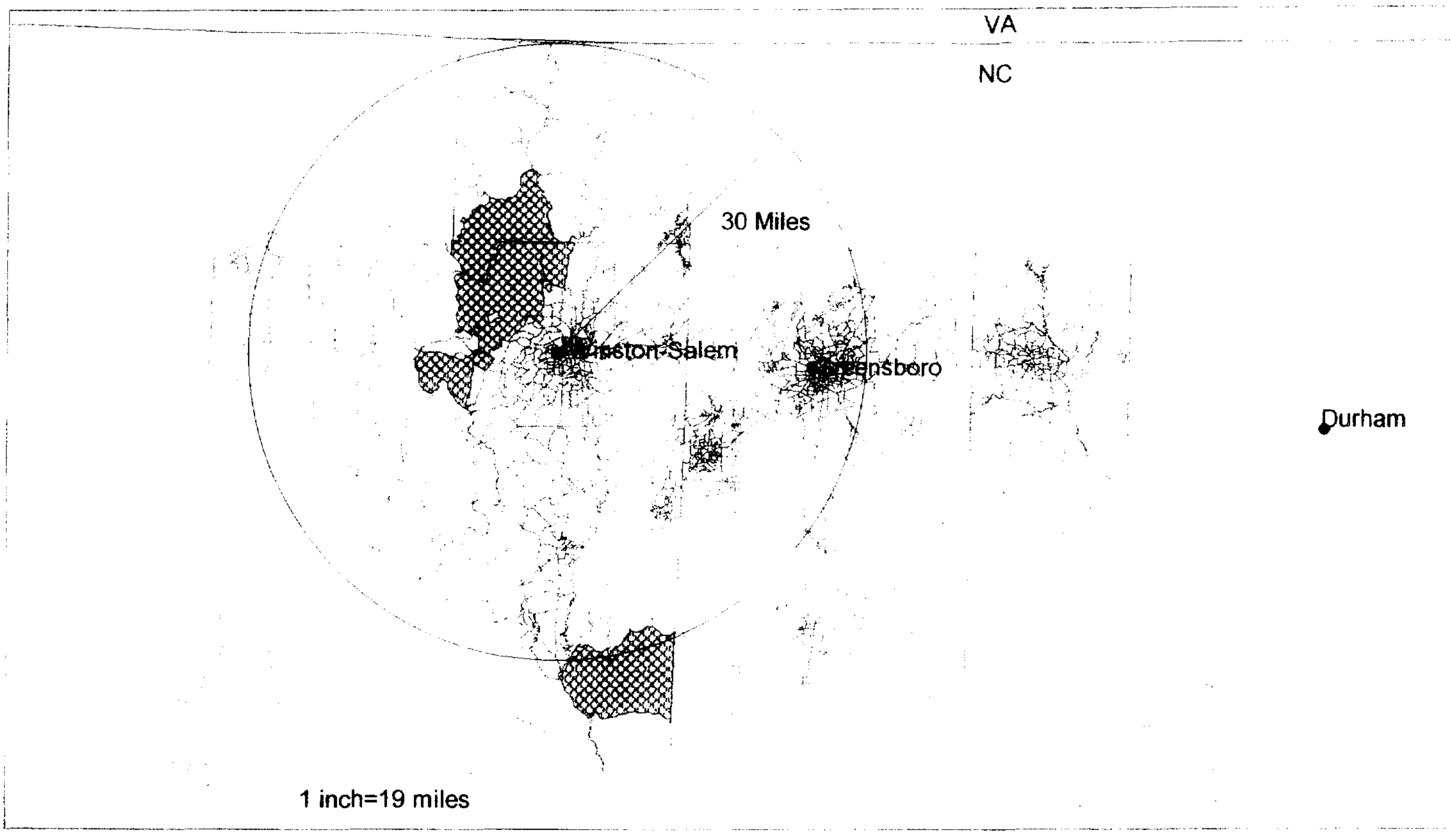
Purple: Syracuse, NY MSA
Green: ALLTEL New York Service Areas
Green Shaded: ALLTEL New York Service Areas in MSA
Black: New York Border

Atlanta, GA MSA



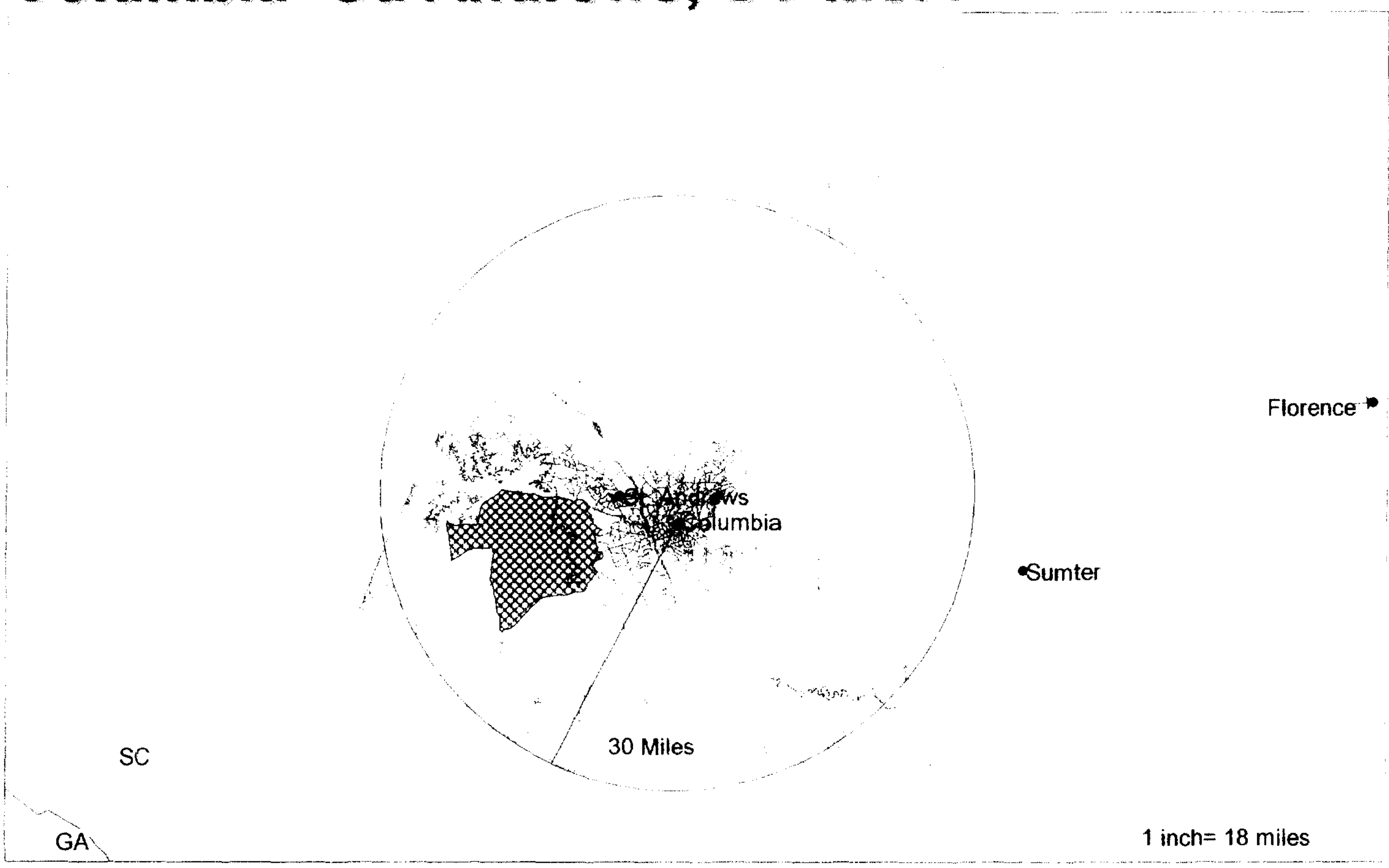
Purple: Atlanta, GA MSA
Green: ALLTEL Service Centers
Green Shaded: ALLTEL Service Areas in MSA
Black: Georgia Border

Greensboro--Winston-Salem, NC MSA



Purple: Greensboro--Winston-Salem, NC MSA
Green: ALLTEL North Carolina Service Areas
Green Shaded: ALLTEL North Carolina Service Areas in MSA
Black: North Carolina MSA

Columbia--St. Andrews, SC MSA



Purple: Columbia--St. Andrews, SC MSA
Green: ALLTEL South Carolina Service Areas
Green Shaded: ALLTEL South Carolina in MSA
Black: South Carolina Border